OBSERVATIONS ON FOREIGN EXCHANGE

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United States Senate

The American dollar should be kept at par throughout the world, so that it may become the medium through which international contracts will then preferably be made.

The United States, as a government, should provide that the American dollar be kept at gold par throughout the world in terms of foreign currency, at least to the extent that at some central point, or points, such as London, Berlin, Petrograd, Paris, and Rome in Europe, and leading points in other parts of the world, manufacturers and merchants can rely upon the American dollar being exchanged at gold par for the currency of other countries, leaving the United States as a government to absorb the difference, if any.

There would be no great difficulty in making this effective and practically without cost in the long run, for the United States could establish a Federal Reserve Foreign Bank that would keep gold deposits at these various points, and thereby would be able to meet such fluctuations without difficulty.

Nations pay for imports with exports through a period of years and do not pay in any other way, except temporarily and in a minor degree.

Nations cannot pay for commodities and services with gold or credits, except to a limited degree, for the obvious reason that otherwise a nation would have no gold with which to support its currency. A per capita circulation of gold must remain relatively constant.

When it is clearly recognized as a principle that nations must pay for commodities and services with commodities and services, and not with gold or credits, except as a temporary bridge, it becomes evident that nations restricting imports in that precise degree restrict exports; and just to the extent that they refuse the goods of other nations, they prevent other nations from accepting their goods. This principle being accepted, it will be seen that putting a dollar at par and keeping it there will involve no real expense to the government of the United States.

The mechanism for doing this should be provided through the Federal Reserve Foreign Bank, a plan for which I presented to Congress during the last session of the Senate.

It may easily happen that the United States would receive more goods from some country than the United States would ship to that country. In that event, United States bonds should be placed in such country to bridge the temporary commodity indebtedness, or the indebtedness should be liquidated by drafts drawn on other nations where the United States has a credit based on commodities.

The one matter of vital importance is to put the dollar at par and keep it at par, permitting it to go neither up nor down, so that manufacturers and merchants, importers and exporters, throughout the world, shall always have a fixed monetary standard for measuring their contracts. Men who sell goods to America in terms of dollars do not want that dollar to depreciate, just as the silk merchants of Italy, who sell silk for the lire, do not wish to find a violent depreciation of the lire. If the dollar was stabilized by act of government, contracts between Italy and the United States would be drawn in terms of dollars and not in terms of lire.

A merchant buying goods from Spain in terms of pesetas is injured if the pesetas rise 50 per cent, as they have done since the United States entered the war. A merchant should make his purchases in terms of dollars, and the seller would be willing to sell in terms of dollars, if the dollars had a fixed gold relation to the pesetas and the peseta was not standardized relatively to the dollar by its own government.

In other words, if the dollar is made a standard measure of value by the government—and this can be done without any serious cost—a dollar will be the measure of international contracts throughout the world, and New York will become the financial center of the world through the discount of bills payable in terms of dollars.

Great Britain understands this quite well and in a certain degree has standardized the pound sterling.

Importers and exporters, and above all, bankers, should demand that the American dollar take first rank as the measure of value of contracts throughout the world.